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SUBJECT: CALDERON ANNOUNCES INCREASED FARM ASSISTANCE TO
SMOOTH NAFTA TRANSITION

¶1. (U) This message is based on Global Agriculture
Information Network Report Number MX7016 from Embassy Mexico
City's Foreign Agricultural Service Section.

Summary

¶2. (U) Last week the Calderon administration rolled out a
number of agricultural/rural development initiatives in a
five-day media blitz dubbed "Countryside Week." Calderon
announced the continuation of several existing agricultural
programs, including PROCAMPO (which channels direct payments
to producers), as well as the creation of new ones, including
an initiative to re-vitalize Mexico's forestry sector. These
activities are all captured under the umbrella of the
Concurrent Special Program (PEC), and Calderon's proposed
spending levels would make the 2007 PEC the largest
allocation of federal funds for rural development in the
history of Mexico. In addition to the PEC programs, Calderon
also announced an unfunded initiative aimed at boosting
competitiveness in the four sectors (corn, dry beans, sugar
cane, and milk) scheduled to be opened in January 2008, when
Mexico implements its final NAFTA obligations.

Funded Programs

¶3. (U) The PEC is an umbrella funding mechanism for all GOM
activities aimed at increasing agricultural production,
stimulating rural economies, and improving rural livelihoods.
Annual PEC funding levels are renegotiated and voted upon
annually by Mexico's Congress -- this year it will receive
USD 16.3 billion, 15 percent higher than 2006 and the largest
allocation of federal funds for rural development in the
history of the Republic. PEC funds are administered by the
Intersecretarial Commission for Sustainable Development and
are distributed among a diverse set of programs run by
different GOM Secretariats (equivalent to USG Departments).
According to the GOM, PEC programs reach 90 percent of
Mexico's municipalities and directly benefit one out of every
four Mexicans. The major programs highlighted during
Calderon's "Countryside Week" include:

-- PROCAMPO: This is a system of direct payments to producers
based on historic levels of area planted. The program is
primarily focused on growers of basic grains and oilseeds.
PROCAMPO was initiated in 1994 and was to have expired in
¶2008. However, the Calderon administration decided to renew

the program through 2012, a great relief to the 2.8 million farmers who are registered under the program. The GOM announced PROCAMPO funding levels of USD 1.5 billion in 2007, a seven percent increase over 2006. Furthermore, the administration also pledged to allocate USD 4.6 billion to PROCAMPO over the next two and a half years.

-- Emergency Plan: The Emergency Plan offers financial support, through a number of mechanisms, for producers of corn, beans, sugar cane, milk, and other sensitive agricultural items. This plan was designed in direct response to the impending opening of North American markets for these products under the NAFTA, and will receive USD 1.1 billion in funding in 2007.

-- Highway Infrastructure: PEC funds will be allocated for the enlargement and improvement of roads and highways to facilitate the transport of agricultural products and reduce operational costs. PEC funds will also allow for the implementation of the "Rural Roads" program, which is designed to assist farmers access both urban markets and international ports.

-- Agricultural and Livestock Census: The GOM has proposed roughly USD 148 million for a comprehensive census of labor and production capacity in the Mexican countryside for use in the further elaboration of farm policy.

-- Strengthening of the Land Fund: The GOM will create a fund for the enforcement of property rights, as well as investment in the countryside. Funds for the acquisition of diesel fuel are also included in this program.

-- Pro-Trees: Calderon also announced the creation of a new PEC initiative to promote the transformation of the forestry

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sector. USD 556 million will be invested in reforesting unproductive areas and developing aquifers. The program will focus on conservation and restoration, planning and forest organization, productivity, and infrastructure development. Pro-Trees will be directed toward Mexico's poorest regions and will partially support nearly 400,000 people.

-- Fisheries Development: Another announcement the President made was to create a new fisheries program to arrest the decline that industry has suffered over many years due in part to lack of government support, inappropriate regulations, and obsolete infrastructure. The GOM will allocate, through the PEC, USD 120 million toward the provision of banking and credit services, improving the efficiency of the fisheries sector, promoting infrastructure investment, and strengthening the enforcement of the regulatory framework.

Plan to Increase Competitiveness for NAFTA Crops

14. (U) In addition to the PEC, the GOM also used the "Countryside Week" to announce "Actions to Promote Corn, Dry Beans, Sugar Cane, and Milk Competitiveness 2007-2012." This is not a funded program. Rather, its activities are already being implemented under an array of existing federal initiatives, including PROCAMPO and other PEC-funded programs. But the announcement did give the Calderon administration a chance to articulate its goals for these sensitive commodities (all of which will be finally and fully liberalized to U.S. and Canadian imports at the start of 2008 pursuant to NAFTA's agricultural chapter) and draw attention to the government support (approximately USD 1.7 billion) already being directed to raising total production and productivity levels for these commodities. In each case, the Calderon administration highlighted how these ongoing activities are helping to strengthen farmer organizations, sustainably increase productivity, create safety nets for producers, and expand access to credit. For corn, the GOM is

shooting to raise average yields from the current 2.8 tons per hectare to 3.5-5.0 tons per hectare, and raise total production from 21 million metric tons to 26-30 MMT. Some progress is certainly attainable, but with average annual corn consumption in Mexico already around 31 MMT, and given Mexico's ethanol production ambitions and its growing livestock and poultry industry, consumption is likely to grow considerably. That means that, even in the unlikely event that Mexico reaches the upper-range target of 30 MMT, it would still be a net importer and thus somewhat vulnerable to international prices. For dried beans, efforts aimed at increased production could result in a significant surplus, since consumption of dried beans continues to fall in Mexico.

Mexico is net importer of both sugar and milk. If the GOM production targets for those two commodities were reached, Mexico might become a net sugar exporter but would still be a net importer of dairy products.

Comment

15. (SBU) The "Countryside Week" announcements were all somewhat vague, with funding levels for specific activities under the various PEC programs still to be determined. Furthermore, they included little focus on more systemic problems like small plot sizes that hinder the application of technology. The announcements have been met with mixed initial reviews by the agricultural sector. Though many producers were pleased that current support programs would remain in place, a number of farmer groups expressed dismay that the GOM had not consulted with the agricultural community when formulating these policies. In addition, some in Congress noted that the administration had increased proposed expenditures over its own budget request. With many of the details still not filled in, there will undoubtedly be some bargaining among interested parties. Perhaps what is more significant is that the GOM is focusing with renewed vigor on the lagging competitiveness of much of Mexico's agricultural sector. Whether or not the production goals are reachable, Calderon is using both the bully pulpit of his office and the federal purse to let Mexico's farmers know that he cares about their anxieties and that his government will intends to make extra efforts to dampen the transition pains to free trade. Intent as he is on honoring Mexico's

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final NAFTA commitments without having to pay too great a political price, this seems a prudent message to send.

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